

## MANAGEMENT SUMMARY

### Current Year (FY 2005-2006) Projected Expenditures Compared to November 2005 Estimate

(Dollars in Millions)

Total Medi-Cal local assistance expenditures in the Department of Health Services (DHS) budget in the Current Fiscal Year as compared to the November 2005 Medi-Cal Estimate are as follows:

Total Expenditures	Nov. 2005 Estimate		May 2006 Estimate		Change	
	Total Funds	Non-Fed Funds	Total Funds	Non-Fed Funds	Total Funds	Non-Fed Funds
Medical Care Services	\$31,226.9	\$13,233.9	\$30,758.0	\$12,965.1	(\$468.9)	(\$268.7)
County Administration	\$2,230.0	\$670.5	\$2,224.2	\$673.9	(\$5.8)	\$3.3
Fiscal Intermediary	\$310.1	\$96.8	\$282.2	\$84.1	(\$27.9)	(\$12.7)
<b>TOTAL</b>	<b>\$33,767.0</b>	<b>\$14,001.3</b>	<b>\$33,264.5</b>	<b>\$13,723.1</b>	<b>(\$502.6)</b>	<b>(\$278.2)</b>

Some DHS programs involve special funding through intergovernmental or voluntary governmental transfers, certification of the non-Federal share, and other non-General Fund special fund sources. These are as follows:

Special Funding	Nov. 2005 Estimate		May 2006 Estimate		Change	
	Total Funds	Non-Fed Funds	Total Funds	Non-Fed Funds	Total Funds	Non-Fed Funds
Medical Care Services	\$3,209.1	\$804.7	\$3,046.0	\$892.3	(\$163.1)	\$87.6
County Administration	\$239.3	\$0.0	\$239.3	\$0.0	\$0.0	\$0.0
Fiscal Intermediary	\$0.1	\$0.0	\$0.1	\$0.0	\$0.0	\$0.0
<b>TOTAL</b>	<b>\$3,448.5</b>	<b>\$804.7</b>	<b>\$3,285.4</b>	<b>\$892.3</b>	<b>(\$163.1)</b>	<b>\$87.6</b>

Disregarding the expenditures which involve special funding and have no General Fund impact on Item 4260-XXX-0001, the estimated expenditures funded by State General Fund (Items 4260-101, 4260-102, 4260-113, & 4260-117) are as follows:

Total General Fund Expenditures	Nov. 2005 Estimate		May 2006 Estimate		Change	
	Total Funds	General Fund	Total Funds	General Fund	Total Funds	General Fund
Medical Care Services	\$28,017.8	\$12,429.2	\$27,712.0	\$12,072.8	(\$305.8)	(\$356.4)
County Administration	\$1,990.7	\$670.5	\$1,984.9	\$673.9	(\$5.8)	\$3.4
Fiscal Intermediary	\$310.0	\$96.8	\$282.1	\$84.1	(\$27.9)	(\$12.8)
<b>TOTAL</b>	<b>\$30,318.5</b>	<b>\$13,196.6</b>	<b>\$29,979.0</b>	<b>\$12,830.8</b>	<b>(\$339.5)</b>	<b>(\$365.8)</b>

**Current Year (FY 2005-2006) Projected Expenditures**  
**Compared to Appropriation**

(Dollars in Millions)

Total Medi-Cal local assistance expenditures in the Department of Health Services (DHS) budget in the Current Fiscal Year as compared to the Appropriation are as follows:

<b>Total Expenditures</b>	<b>Appropriation</b>		<b>May 2006 Estimate</b>		<b>Change</b>	
	<b>Total Funds</b>	<b>Non-Fed Funds</b>	<b>Total Funds</b>	<b>Non-Fed Funds</b>	<b>Total Funds</b>	<b>Non-Fed Funds</b>
Medical Care Services	\$32,281.4	\$14,376.0	\$30,758.0	\$12,965.1	(\$1,523.4)	(\$1,410.8)
County Administration	\$2,319.8	\$675.6	\$2,224.2	\$673.9	(\$95.6)	(\$1.8)
Fiscal Intermediary	\$322.1	\$97.1	\$282.2	\$84.1	(\$39.9)	(\$13.0)
<b>TOTAL</b>	<b>\$34,923.2</b>	<b>\$15,148.8</b>	<b>\$33,264.5</b>	<b>\$13,723.1</b>	<b>(\$1,658.9)</b>	<b>(\$1,425.6)</b>

Some DHS programs involve special funding through intergovernmental or voluntary governmental transfers, certification of the non-Federal share, and other non-General Fund special fund sources. These are as follows:

<b>Special Funding</b>	<b>Appropriation</b>		<b>May 2006 Estimate</b>		<b>Change</b>	
	<b>Total Funds</b>	<b>Non-Fed Funds</b>	<b>Total Funds</b>	<b>Non-Fed Funds</b>	<b>Total Funds</b>	<b>Non-Fed Funds</b>
Medical Care Services	\$4,665.7	\$2,164.2	\$3,046.0	\$892.3	(\$1,619.7)	(\$1,271.9)
County Administration	\$461.8	\$1.2	\$239.3	\$0.0	(\$222.5)	(\$1.2)
Fiscal Intermediary	\$0.1	\$0.0	\$0.1	\$0.0	\$0.0	\$0.0
<b>TOTAL</b>	<b>\$5,127.6</b>	<b>\$2,165.4</b>	<b>\$3,285.4</b>	<b>\$892.3</b>	<b>(\$1,842.2)</b>	<b>(\$1,273.1)</b>

Disregarding the expenditures which involve special funding and have no General Fund impact on Item 4260-XXX-0001, the estimated expenditures funded by State General Fund (Items 4260-101, 4260-102, 4260-113, & 4260-117) are as follows:

<b>Total General Fund Expenditures</b>	<b>Appropriation</b>		<b>May 2006 Estimate</b>		<b>Change</b>	
	<b>Total Funds</b>	<b>General Fund</b>	<b>Total Funds</b>	<b>General Fund</b>	<b>Total Funds</b>	<b>General Fund</b>
Medical Care Services	\$27,615.7	\$12,211.8	\$27,712.0	\$12,072.8	\$96.3	(\$139.0)
County Administration	\$1,858.0	\$674.4	\$1,984.9	\$673.9	\$126.9	(\$0.5)
Fiscal Intermediary	\$322.0	\$97.1	\$282.1	\$84.1	(\$39.9)	(\$13.0)
<b>TOTAL</b>	<b>\$29,795.7</b>	<b>\$12,983.4</b>	<b>\$29,979.0</b>	<b>\$12,830.8</b>	<b>\$183.3</b>	<b>(\$152.5)</b>

The November 2005 Estimate identified a 2005-06 Medi-Cal Program General Fund (GF) deficiency of \$213.2 million. The May 2006 Estimate identifies a surplus of \$152.6 million GF, compared to the Appropriation, which is a \$365.8 million GF decrease from the November 2005 Estimate. The change from the November 2005 Estimate is explained as follows (dollars in millions):

November 2005 General Fund:	\$13,196.6
May 2006 General Fund:	<u>\$12,830.8</u>
<b>General Fund Change:</b>	<b><u>-\$365.8</u></b>

Medical Care Services:

PC 10	New Qualified Aliens	-20.1
PC 19	Conlan v. Bontá	-1.2
PC 118	Aged Drug Rebates	-6.8
PC 126	Family PACT Rebates	-3.5
PC 129	State Supplemental Drug Rebates	-48.0
PC 130	Federal Drug Rebate Program	-108.2

Medicare Modernization Act Part D Drug Benefits:

PC 28	MMA Medicare Drug Benefit	18.8
PC 57	Medicare Payments – Part D Phase-Down (Base)	-270.9
PC 71	MMA 100-Day Prescription Supply	<u>35.4</u>
	<i>Sub-Total Major MMA Changes:</i>	<i>-216.7</i>

Hospital Financing:

PC 58	Hospital Financing – Private DSH Replacement	-38.8
PC 140	Hospital Financing – Advanced Payments to DPH	0.0
PC 144	Hospital Financing – New Rate Reconciliation	<u>65.2</u>
	<i>Sub-Total Major Hospital Financing Changes:</i>	<i>26.4</i>

Provider Payment Decrease:

PC 124	5% Provider Payment Decrease – AB 1735	9.7
PC 139	5% Provider Pay. Decrease Rescission – SB 912	<u>8.3</u>
	<i>Sub-Total Provider Payment Decrease:</i>	<i>18.0</i>

County Administration	3.4
-----------------------	-----

Fiscal Intermediary	-12.8
---------------------	-------

All Other Changes	3.7
-------------------	-----

The following paragraphs briefly describe each of the above items:

1. PC 10 New Qualified Aliens: The Personal Responsibility and Work Opportunity and Reconciliation Act of 1996 specified that federal funds are only available for emergency services for nonexempt qualified aliens during the first five years they are in the country. California law requires that legal immigrants receive the same services as citizens; therefore, full-scope services are provided to new nonexempt qualified aliens and the cost of non-emergency services is reimbursed to the federal government. The amount of funding that will be returned to the federal government for non-emergency services is expected to be \$20.1 million GF less in 2005-06 and \$28.7 million GF less in 2006-07 than anticipated in the November 2005 Estimate.
2. PC 19 Conlan v. Bontá: In *Conlan, Schwarzmer and Stevens v. Bontá*, the court ordered the Department to develop a plan through which Medi-Cal beneficiaries who are unable to get reimbursement from providers for out-of-pocket medical expenses that should be covered by Medi-Cal can receive direct reimbursement from the Medi-Cal Program. This plan, which applies to services paid in the three months prior to application for Medi-Cal, while Medi-Cal eligibility was being determined and for other health coverage copayments, is expected to be implemented in July 2006, with the first additional reimbursements beginning in October 2006. This is a delay from the February 2006 implementation date assumed in the November 2005 Estimate, resulting in a savings in 2005-06 of \$1.2 million GF. Benefit costs in 2006-07 are expected to be \$7.2 million GF higher than estimated in the November 2005 Estimate, based on the latest information about how the plan will be implemented.
3. PC 118 Aged Drug Rebates: Based on the continuation of current staffing levels that had been approved on a limited term basis, the Department expects to continue to resolve aged drug rebate disputes. Collections in 2005-06 are expected to be \$6.8 million GF greater than the collections assumed in the November 2005 Estimate. For 2006-07, the collections are expected to be \$7.5 million GF more than previously assumed.
4. PC 126 Family PACT Rebates, PC 129 State Supplemental Drug Rebates, and PC 130 Federal Drug Rebate Program: In order to best identify actual drug rebates received on a cash basis, the Department is now using Accounting records to identify the rebates received from drug manufacturers. Using these records identifies the fact that the Department is expected to collect \$159.7 million GF more in rebates in 2005-06 than assumed in the November 2005 Estimate (\$3.5 million GF in Family PACT rebates, \$48.0 million GF in state supplemental rebates and \$108.2 million GF in federal rebates). In 2006-07, the rebates are expected to be \$81.1 million GF higher than the November 2005 Estimate (\$25.8 million GF higher in state supplemental rebates and \$58.2 million GF in federal rebates; Family PACT rebates are expected to be lower by 2.9 million GF).

5. Medicare Modernization Act Part D Drug Benefit Significant Changes: PC 28 MMA Medicare Drug Benefit; PC 57 (Base PC) Medicare Payments – Part D Phase-Down; and PC 71 MMA 100-Day Prescription Supply: On January 1, 2006, the Medicare Part D drug benefit included in the Medicare Modernization Act was implemented. Medi-Cal discontinued coverage of all drugs for Medi-Cal/Medicare dual eligibles enrolled in Part D that are covered by Part D. The number of persons enrolled in Part D is expected to be slightly lower than anticipated in the November 2005 Estimate. In addition, the savings from no longer covering the Part D drugs has been reduced due to higher rebates being identified for those drugs. Because of these changes, the savings identified in PC 28 for the elimination of coverage for Part D drugs will be \$18.8 million GF less than anticipated in 2005-06 and \$106.1 million GF less in 2006-07.

The cost identified in PC 57 for California to return to the federal government part of the savings obtained from no longer covering most drugs for dual eligibles, known as the 'clawback', is \$270.9 million GF less than expected in the November 2005 Estimate in 2005-06 and \$38.3 million GF less in 2006-07. These reductions are based in part on fewer dual eligibles. However, the main reasons for the significant reduction in costs in 2005-06 are the Centers for Medicare and Medicaid Services (CMS) allowing the states to pay the clawback owed for January and February 2006 over an eight month period from April through December 2006, and changes in the clawback billing process that specify that the payment for a clawback month is due two months after the clawback month. The November 2005 Estimate assumed a one month delay in payment, so this direction from CMS creates an additional one-time one month clawback savings in 2005-06.

To ensure no break in drug regimens for persons transitioning to Part D, the Department authorized prescriptions with 100 day supplies during the last months of 2005. The cost for these prescriptions, and the increase in prescription requests just prior to the implementation of Part D (PC 71), resulted in costs of \$35.4 million GF more than the \$19.5 million GF included in the November 2005 Estimate for this purpose. California has also provided emergency drug coverage for dual eligibles who should have been enrolled in Part D by the federal government, but were not, or who could not get the prescriptions they needed. This coverage, authorized by AB 132 (Chapter 2, Statutes of 2006), is budgeted outside of the Medi-Cal budget.

6. Hospital Financing Significant Changes: PC 58 Hospital Financing – Private DSH Replacement; PC 140 Hospital Financing – Advanced Pay to DPH; and PC 144 Hospital Financing – New Rate Reconciliation: SB 1100 (Chapter 560, Statutes of 2005) implements the provisions of the Medi-Cal Hospital /Uninsured Care Demonstration (MH/UCD) Waiver, approved in September 2005. All the decisions/processes needed to implement this complex waiver/legislation are still being finalized. This delay has led to the following changes in funding in the May

2006 Estimate: \$38.8 million GF expected to be paid to private hospitals for replacement of Disproportionate Share Hospital (DSH) funding (PC 58) will not be paid in 2005-06; rather, it will be paid in 2006-07; nine of the twenty-three designated public hospitals experiencing severe cash flow problems were paid advances of \$186.5 million GF in 2005-06 (PC 140), which are expected to be repaid in the same year now that federal DSH funding for those hospitals under the MH/UCD Waiver is available; and those designated public hospitals with interim rates based on certified public expenditures (CPEs) that are less than the amount they were paid through per diem rates (PC 144) will repay the rates paid above the CPEs once the Physician and Non-Physician State Plan Amendment is approved. This repayment is expected to be made in 2006-07, resulting in a cost of \$65.2 million GF in 2005-06 and savings of \$65.2 million GF in 2006-07.

7. Provider Payment Decrease: PC 124 5% Provider Payment Decrease – AB 1735: PC 139 5% Provider Payment Decrease Rescission – SB 912: The Budget Act of 2003 reduced provider payments by 5% effective January 1, 2004. The Department was enjoined from implementing this reduction for fee-for-service payments. The Department appealed this action and, in August 2005, the decision was reversed. AB 1735 (Chapter 719, Statutes of 2005) changed the effective date of the reduction to January 1, 2006 and maintained the original expiration date of December 31, 2006. SB 912 (Chapter 8, Statutes of 2006) rescinded the payment reduction, effective March 4, 2006. Savings for implementing the reduction specified in AB 1735 is included in PC 124. The savings is \$9.7 million GF lower in 2005-06 and \$11.4 million GF lower in 2006-07 than budgeted in the November 2005 Estimate due to the elimination of dental savings. The two months of dental savings will be part of the adjustments made to the capitation rates paid to Delta Dental for 2005-06. The cost of the SB 912 rescission of the payment reduction of \$8.3 million GF in 2005-06 and \$30.3 million in 2006-07 is reflected in PC 139.
8. County Administration: County administrative costs are expected to be \$3.4 million GF higher in 2005-06 and \$39.7 million GF higher in 2006-07 than expected in the November 2005 Estimate, mainly due to caseload increases.
9. Fiscal Intermediary: Fiscal Intermediary costs are expected to be \$12.8 million GF less than anticipated in the November Estimate, mostly due to reductions in HIPAA costs and delays in implementation of Conlan (discussed above) and other change orders. In 2006-07, costs are expected to be \$5.9 million GF less than projected in November, mainly due to postponing changes to the Automated Collection Management System.
10. All Other: All other changes amount to an increase of \$3.7 million GF compared to the November 2005 Estimate. These changes include the net impact of all other changes not listed above.

**Budget Year (FY 2006-2007) Projected Expenditures**  
**Compared to November 2005 Estimate**

(Dollars in Millions)

Total Medi-Cal local assistance expenditures in the Department of Health Services (DHS) budget in the Budget Fiscal Year as compared to the November 2005 Medi-Cal Estimate are as follows:

<b>Total Expenditures</b>	<b>Nov. 2005 Estimate</b>		<b>May 2006 Estimate</b>		<b>Change</b>	
	<b>Total Funds</b>	<b>Non-Fed Funds</b>	<b>Total Funds</b>	<b>Non-Fed Funds</b>	<b>Total Funds</b>	<b>Non-Fed Funds</b>
Medical Care Services	\$32,170.3	\$13,783.5	\$32,355.7	\$13,655.5	\$185.4	(\$128.0)
County Administration	\$2,251.1	\$661.0	\$2,327.5	\$700.7	\$76.4	\$39.7
Fiscal Intermediary	\$320.2	\$99.5	\$310.3	\$93.6	(\$10.0)	(\$5.9)
<b>TOTAL</b>	<b>\$34,741.6</b>	<b>\$14,544.0</b>	<b>\$34,993.5</b>	<b>\$14,449.8</b>	<b>\$251.8</b>	<b>(\$94.2)</b>

Some DHS programs involve special funding through intergovernmental or voluntary governmental transfers, certification of the non-Federal share, and other non-General Fund special fund sources. These are as follows:

<b>Special Funding</b>	<b>Nov. 2005 Estimate</b>		<b>May 2006 Estimate</b>		<b>Change</b>	
	<b>Total Funds</b>	<b>Non-Fed Funds</b>	<b>Total Funds</b>	<b>Non-Fed Funds</b>	<b>Total Funds</b>	<b>Non-Fed Funds</b>
Medical Care Services	\$3,579.7	\$805.0	\$3,285.7	\$681.1	(\$294.0)	(\$123.9)
County Administration	\$296.9	\$0.0	\$296.9	\$0.0	\$0.0	\$0.0
Fiscal Intermediary	\$0.1	\$0.0	\$0.1	\$0.0	\$0.0	\$0.0
<b>TOTAL</b>	<b>\$3,876.7</b>	<b>\$805.0</b>	<b>\$3,582.7</b>	<b>\$681.1</b>	<b>(\$294.0)</b>	<b>(\$123.9)</b>

Disregarding the expenditures which involve special funding and have no General Fund impact on Item 4260-XXX-0001, the estimated expenditures funded by State General Fund (Items 4260-101, 4260-102, 4260-113, & 4260-117) are as follows:

<b>Total General Fund Expenditures</b>	<b>Nov. 2005 Estimate</b>		<b>May 2006 Estimate</b>		<b>Change</b>	
	<b>Total Funds</b>	<b>General Fund</b>	<b>Total Funds</b>	<b>General Fund</b>	<b>Total Funds</b>	<b>General Fund</b>
Medical Care Services	\$28,590.6	\$12,978.5	\$29,070.0	\$12,974.4	\$479.4	(\$4.1)
County Administration	\$1,954.2	\$661.0	\$2,030.6	\$700.7	\$76.4	\$39.7
Fiscal Intermediary	\$320.1	\$99.5	\$310.2	\$93.6	(\$9.9)	(\$5.9)
<b>TOTAL</b>	<b>\$30,864.9</b>	<b>\$13,738.9</b>	<b>\$31,410.8</b>	<b>\$13,768.7</b>	<b>\$545.9</b>	<b>\$29.7</b>

The General Fund increase in the 2006-07 Budget Year of \$29.8 million GF, as compared to the November 2005 Estimate, is explained as follows (dollars in millions):

November 2005 General Fund:	\$13,738.9
May 2006 General Fund:	<u>\$13,768.7</u>
<b>Difference:</b>	<b>\$29.7</b>

Medical Care Services:

PC 10	New Qualified Aliens	-28.7
PC 19	Conlan v. Bontá	7.2
PC 118	Aged Drug Rebates	-7.5
PC 126	Family PACT Rebates	2.9
PC 129	State Supplemental Drug Rebates	-25.8
PC 130	Federal Drug Rebate Program	-58.2
PC 142	Eligibility for Children in Month Prior to SSI/SSP	0.6
PC 143	Hurricane Katrina Section 1115 Waiver	-2.3
PC 150	Capitation Rate Increases	30.6

Medicare Modernization Act Part D Drug Benefits:

PC 28	MMA Medicare Drug Benefit	106.1
PC 57	Medicare Payments – Part D Phase-Down (Base)	-38.3
PC 71	MMA 100-Day Prescription Supply	<u>-35.4</u>
	<i>Sub-Total Major MMA Changes:</i>	<i>32.4</i>

Hospital Financing:

PC 58	Hospital Financing – Private DSH Replacement	38.8
PC 140	Hospital Financing – Advanced Pay to DPH	0.0
PC 144	Hospital Financing – New Rate Reconciliation	<u>-65.2</u>
	<i>Sub-Total Major Hospital Financing Changes:</i>	<i>-26.4</i>

Provider Payment Decrease:

PC 124	5% Provider Payment Decrease – AB 1735	11.4
PC 139	5% Provider Pay. Decrease Rescission– SB 912	30.3
PC 146	Restoration of Provider Payment Decrease	<u>32.7</u>
	<i>Sub-Total Provider Payment Decrease:</i>	<i>74.4</i>

County Administration	39.7
-----------------------	------

Fiscal Intermediary	-5.9
---------------------	------

All Other Changes	-3.3
-------------------	------



The following paragraphs briefly describe the items above that were not described under the 2005-06 Current Year:

1. PC 142 Eligibility for Children in Month Prior to SSI/SSP: The Deficit Reduction Act (DRA) of 2005 requires the states to provide Medicaid coverage to children under 21 who are found eligible for Supplemental Security Income (SSI) for the month prior to the month in which their SSI grant begins. As required by the DRA, this change will be implemented in February 2007. It is anticipated that 790 additional children will be covered a month. The 2006-07 cost is expected to be \$0.6 million GF.
2. PC 143 Hurricane Katrina Section 1115 Waiver: The Department is participating in the Hurricane Katrina 1115 Demonstration Project waiver under which the Department receives 100% federal funding for Medi-Cal services provided to Hurricane Katrina evacuees between August 28, 2005 and May 31, 2006. Coverage for the evacuees is limited to five months from the date of application. The Department expects to receive this enhanced funding in 2006-07, resulting in a one-time savings of \$2.3 million GF.
3. PC 146 Restoration of Provider Payment Decrease: The Budget Act of 2003 reduced provider payments by 5% effective January 1, 2004. The Department was enjoined from implementing this reduction for fee-for-service payments, but did implement it for managed care plans. Those rate reductions will be eliminated for each plan on January 1, 2007. The cost of the rate restoration is expected to be \$32.7 million GF in 2006-07.
4. PC 150 Capitation Rate Increases: The Department recently conducted a financial review of all Medi-Cal managed care plans to determine if any additional rate adjustments were needed to ensure that all plans would have sufficient resources to provide quality care to Medi-Cal beneficiaries. Six plans were determined to be in need of a rate increase. The rate increases will be implemented during FY 2006-07 at the start of each plan's new rate period. The cost in 2006-07 is expected to be \$30.6 million GF.
5. All Other: All other changes amount to a decrease of \$3.3 million GF compared to the November 2005 Estimate. These changes include the net impact of all other changes not listed above.

#### IV. General Information

This estimate is based on actual payment data through February 2006. Estimates for both fiscal years are on a cash basis.

Costs payable with special refugee funds are identified as a distinct federal fund item as are federal funds for Capital Debt reimbursements. Intergovernmental transfer funds, voluntary governmental transfer funds and General Funds for Capital Debt reimbursement are included as state funds but are separately identified in the Funding Summary. Healthy Families (Title XXI) and HIPAA costs incurred by the Department are included in the Estimate and separately identified in the Funding Summary.

The Miscellaneous Non-Fee-For-Service Category includes expenditures for CLPP Case Management Services, Home and Community Based Services -- DDS, Targeted Case Management Services -- DDS, Medi-Cal Targeted Case Management Program, Multipurpose Senior Services Program, Waiver Personal Care Services, Community Supported Living Arrangements, and HIPP premiums.

Should a projected deficiency exist, Section 14157.6 of the Welfare and Institutions Codes authorizes appropriation, subject to 30-day notification to the Legislature, of any federal or county funds received for expenditures in prior years. At this time, no prior year General Funds have been identified to be included in the above estimates as abatements against current year costs.

## Range Estimate

There is considerable uncertainty associated with projecting Medi-Cal expenditures, which vary according to the number of persons eligible for Medi-Cal, the number and type of services these people receive, and the cost of providing these services. Additional uncertainty is created by monthly fluctuations in claims processing, federal audit exceptions, and uncertainties in the implementation dates for policy changes which often require approval of federal waivers, changes in regulations, and in some cases, changes in the adjudication process at the fiscal intermediary. The efforts to reduce rates paid for Medi-Cal services, changes in payments to skilled nursing facilities as a result of AB 1629, the impact of implementation of Medicare Part D drug benefits on drug costs and rebates, and the changes in payments to hospitals as the result of the Medi-Cal Hospital/Uninsured Care Demonstration Waiver are major sources of uncertainty. The changes required by the federal Deficit Reduction Act will also add additional uncertainty to the estimating process beginning in 2006-07.

It is assumed that expenditures may vary normally by four percent from the mid-range projection. It is believed this is consistent with the accuracy observed in most large economic regression models. The Estimate includes eight months of current year data; hence, a 1.3% variation is assumed for the current year and 4.0% for the budget year. DSH, VGT and Capital Debt payments are excluded from this calculation.

Total Uncertainty  
(Dollars in Thousands)

<u>FY 2005-2006</u>		<u>FY 2006-2007</u>	
Total	G/F	Total	G/F
Normal Variation +/- \$394,407	+/- \$167,058	+/- \$1,284,075	+/- \$549,596